



1998–99 CATS ASSESSMENT

Open-Response Item Scoring Worksheet

Grade 8—Social Studies

The **academic expectation** addressed by “Business Competition” is

2.18 Students understand economic principles and are able to make economic decisions that have consequences in daily living.

The **core content** assessed by this item includes

- Competition among buyers and sellers impacts the price of goods and services.

Business Competition

Joe and Bill operate gas stations located across the street from one another. Usually, Joe and Bill charge \$1.11 a gallon at their gas stations. One day, Joe decided to lower the price of his gas to \$1.05 a gallon. Explain some ways this will affect both gas stations.



SCORING GUIDE

Grade 8 Social Studies

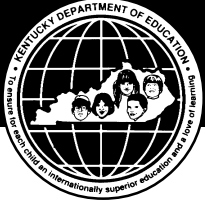
Score	Description
4	Student clearly explains how the price change will affect both businesses. Explanation is detailed and reflects reasonable economic assumptions. Response shows a clear understanding of the impact of price competition on buyers and sellers.
3	Student generally explains how the price change will affect both businesses. Explanation reflects reasonable economic assumptions. Response shows a general understanding of the impact of price competition on buyers and sellers.
2	Student provides a limited explanation of how the price change will affect both businesses. Explanation may reflect inaccurate economic assumptions. OR Student generally explains how the price change will affect one of the businesses. Response shows a limited understanding of the impact of price competition on buyers and sellers.
1	Student's response is minimal (e.g., student identifies one or two ways the price change will affect one of the businesses). Response shows a minimal understanding of the impact of price competition on buyers and sellers.
0	Response is totally incorrect or irrelevant.
Blank	No response.

Some possible impacts on Joe's station:

- increased business, more customers
- lower profit margin
- higher demand for gas, will need to purchase more
- may need to hire more help to deal with increased business
- may need to advertise less
- may become more profitable
- may be able to invest more in other profitable areas (e.g., minimart)

Some possible impacts on Bill's station:

- fewer customers
- lower profits
- may have to lower prices to compete
- may need to provide other services to compete (e.g., minimart)
- may need to lay off workers because of decreased business
- may need to advertise more
- may go out of business



ANNOTATED STUDENT RESPONSE

Grade 8 Social Studies

Sample 4-Point Response of Student Work

Student Response

In reducing the amount of money charged for gasoline per gallon, Joe is affecting his gas station in a positive way. Joe's gas station would get more customers because of his lower price. This would also cause Bill to lose business because of his higher price.

Joe would lose 6 cents per gallon, but, if he got more customers, it would make up for the profit loss. Joe would need to buy more gasoline if Bill does not lower his price to compete with Joe.

Bill would still have 6 cents more per gallon, so he would not have to lose as much money per gallon. The one piece of advice I have for Bill is to lower his price to be even or less than Joe's amount of \$1.05 if Bill can afford it. This would cause both gas stations to be at equal rates per gallon, so they could again compete for customers that would go to one of the gas stations.

Student clearly explains how the price change will affect both businesses (i.e., Joe will gain customers, and Bill will lose customers).

Student considers the tradeoff Joe is making between higher profit margins and increased market share (i.e., an increase in customers would offset the price cut).

Student also discusses Bill's options and what he can do to protect his business and market share (i.e., match or beat Joe's new price in order to remain competitive).

Overall, the student demonstrates a clear understanding of the impact of price competition on buyers and sellers. The student also demonstrates an ability to apply economic principles to a real-life situation.



ANNOTATED STUDENT RESPONSE

Grade 8 Social Studies

Sample 4-Point Response of Student Work

Student Response

The lower price on Joe's gas will affect both Joe and Bill. First, Bill would have less customers. Joe would get most of them because of the lower price per gallon. The lower price will attract more people. Bill would have a problem and maybe lower his price also.

Second, Joe would earn less profit from the gas. A six cents decrease per gallon would occur. He would need more customers to make up for that decrease. In the long run, he would have gained more profit.

Third, Bill might have to lower his price to meet Joe's. He might get out of the business if he does not change his prices because no one would want to come to his gas station. People would start coming to his gas station again when the gas is cheaper there. Then everything would be back to normal. Lowering the price would have an affect on both stations.

← Student clearly explains how the price change will affect both businesses (i.e., Joe will gain Bill's customers, and Bill will probably lower his price).

← The explanation includes such details as the impact of price competition on profit margins, market share, and long-range profitability.

← Student also discusses the impact of Joe's decision on Bill and what he can do to protect his business and market share (i.e., Bill might get out of the business unless he changes his prices).

Overall, the student demonstrates a clear understanding of the impact of price competition on buyers and sellers. The student also demonstrates an ability to apply economic principles to a real-life situation.

Sample 3-Point Response of Student Work

Student Response

Some ways the lowering of the price of Joe's gas would affect both stations is that Bill would stop getting as many customers as he once had and Joe would get more customers because people want the better deal.

Also, Joe will get more profit than what Bill will make. Joe will be able to make his gas station bigger and better. Bill wouldn't be able to buy as much gas as he used from the oil companies while Joe can put up more pumps and buy more gas.

← Student explains how the price change will affect both businesses (i.e., Bill will lose customers and Joe will gain customers).

← The explanation reflects reasonable economic assumptions applied to a real-life situation (i.e., with increased profit Joe can put up more pumps and buy more gas).

Overall, the student demonstrates a general understanding of the impact of price competition on buyers and sellers. Explanation is not detailed enough to earn a score of 4.



ANNOTATED STUDENT RESPONSE

Grade 8 Social Studies

Sample 2-Point Response of Student Work

Student Response

This change would affect both of the gas stations by Joe having more service, so Joe would have more money. Bill's business would probably go out of business soon if he didn't lower his price too.

They would both be lowering their prices and the gas would be almost free. Both Bill and Joe would go out of business.

← Student provides a limited explanation of how the price change will affect both businesses (i.e., Joe would have more money, and Bill might go out of business).

← The explanation reflects inaccurate economic assumptions about the impact of price competition on buyers and sellers.

Overall, the student demonstrates a limited understanding of the impact of price competition on buyers and sellers.

Sample 1-Point Response of Student Work

Student Response

This will effect both gas stations because Joe will get more customers because his gas is cheaper. But he may not make as much unless he gets a lot of people.

← Student provides a minimal explanation of how the price change will affect one business (i.e., Joe will gain customers).

Overall, the student demonstrates a minimal understanding of the impact of price competition on buyers and sellers.



INSTRUCTIONAL STRATEGIES

Grade 8 Social Studies

The open response item **“Business Competition”** was designed to assess students’ (1) ability to understand basic economic principles and use them to make economic decisions that have consequences in daily life, and (2) awareness and understanding of how competition among buyers and sellers impacts the price of goods and services. The instructional strategies below present ideas for helping students to explore and master these concepts.

Invite local business people to speak to the class about the economic decisions they must make each day to remain both competitive and profitable.

Have students work individually, in pairs, in small groups, and/or as a class to complete any or all of the following activities:

- Conduct research on business competition in your community. Find out which businesses operate in a highly competitive environment and which do not. Discuss how competition affects both the people who work in these businesses and consumers.
- Survey the class or school to find out how many students work for pay and what they do. Discuss how competition from other students interested in those jobs might affect how much they are paid and how many hours they work.
- Study the weekly grocery store advertisements in a local newspaper. Compare prices for similar goods. Consider how stores use price competition to attract customers.
- Do a competition analysis of a single type of retail outlet in your community such as gas stations, video stores, pizza shops, dry cleaners, coffee shops, or movie theaters. Compare prices charged for commonly purchased goods or services. Interview owners or managers to find out how they price their most popular offerings.
- Identify a monopoly that controls the delivery of an essential good or service in your community (e.g., electric power, telephone service, health care, water, refuse collection, mail delivery, bus service). Discuss why the monopoly exists and how it sets its prices. What might happen to prices and service if the monopoly were to face competition?
- Organize blind tastings of three or four brands of common food items (e.g., peanut butter, apple juice, popcorn, pasta sauce, vanilla ice cream, etc.) that range in price from economy to expensive. Graph student preferences before revealing the identity of each sample and its per unit price. Is there a strong correlation between prices and preference? Are the makers of these products competing on price, quality, or something else such as packaging or brand name loyalty?